

Message Text

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ACTION NEA-10

INFO OCT-01 AF-06 ARA-06 EUR-12 EA-07 ISO-00 IO-11 ERDA-05

AID-05 CEA-01 CIAE-00 CIEP-01 COME-00 DODE-00 EB-07

FEAE-00 FPC-01 H-02 INR-07 INT-05 L-03 NSAE-00 NSC-05

OMB-01 PM-04 USIA-06 SAM-01 OES-03 SP-02 SS-15 STR-04

TRSE-00 PA-01 PRS-01 JUSE-00 /133 W

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R 191232Z JAN 76

FM AMEMBASSY TEHRAN

TO SECSTATE WASHDC 5174

INFO AMEMBASSY ABU DHABI

AMEMBASSY ALGIERS

USINT BAGHDAD POUCH

AMEMBASSY CARACAS

AMEMBASSY DOHA

AMEMBASSY JAKARTA

AMEMBASSY JIDDA

AMEMBASSY KUWAIT

AMEMBASSY LAGOS

AMEMBASSY LIBREVILLE

AMEMBASSY LONDON

AMEMBASSY QUITO

AMEMBASSY TRIPOLI

S E C R E T TEHRAN 0530

E.O.11652: GDS

TAGS: ENRG, IR

SUBJ: OIL COMPANY EXECUTIVES' AUDIENCE WITH SHAH

REF: TEHRAN 0325 (NOTAL), TEHRAN 0432

1. SUMMARY: TOP BP AND TEXACO EXECUTIVES HAD NOON JAN 18
AUDIENCE WITH SHAH, WHICH THEY CHARACTERIZED AS "SERIOUS DISCUSSION
OF L PROBLEM". SHAH APPEARED WELL-BRIEFED ON CURRENT MARKET

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REALITIES THAT HAVE RESULTED IN REDUCED LIFTINGS. RESULT OF

DISCUSSION IS THAT NEGOTIATIONS WILL BEGIN IMMEDIATELY WITH AIM OF CONCLUDING NEW AGREEMENT BETWEEN MEMBERS AND TUOC BY MID-MARCH. IN MEANTIME, NIOC WILL CONTINUE TO CONTRIBUTE MEMBERS' SHARE OF CAPITAL. IT WAS NOT CLEAR WHETHER MEMBERS MAY EXPECT EARLY RELIEF ON PRICE OF IRANIAN HEAVY. END SUMMARY.

2. BP CHAIRMAN AND MANAGING DIRECTOR DAVID STEELE AND TEXACO CHAIRMAN AND CHIEF EXECUTIVE OFFICER MAURICE GRANVILLE HAD AUDIENCE WITH SHAH AT NOON JAN 18. THEY WERE ACCOMPANIED BY JOHN SUTCLIFFE OF BP AND AL DECRANE OF TEXACO. NIOC CHAIRMAN AND MANAGING DIRECTOR EGHBAL, DEPUTY CHAIRMAN REZA FALLAH, AND DIRECTOR OF INTERNATIONAL AFFAIRS PARVIZ MINA WERE WITH SHAH. GRANVILLE AND DECRANE, WHO CALLED ON DCHCWFTERNOON OF JAN 18, TO REPORT ON SHAH AUDIENCE NOTED THAT IN PAST, AUDIENCES THAT HAD X BEEN PRECEDED BY PRESS BUILDUP (TEHRAN 0432) HAD BEGUN WITH LONG TIRADE BY SHAH ON COMPANIES' BEHAVIOR. THIS TIME THERE WAS NO SUCH PRELUDE. COMPANY EXECUTIVES BEGAN BY DESCRIBING IN SOME DETAIL THE WORLD-WIDE MARKETING SITUATION THAT HAS RESULTED IN APPROXIMATELY 50 PERCENT DROP IN EXPORTS OF ALL OPEC HEAVY CRUDES, DURING FOURTH QUARTER 1975. SHAH APPEARED TO UNDERSTAND POINT FULLY, BUT REPEATED SEVERAL TIMES DURING THE INTERVIEW THAT A CONTINUED LOW LEVEL OF EXPORTS AND REVENUES WOULD ENDANGER HIS FOREIGN POLICY. HE ASKED WHY, IN THIS MARKET SITUATION, NIOC HAD BEEN FABLE TO INCREASE ITS OWN SALES BY 28 PERCENT IN FOURTH QUARTER. MEMBERS (VKNOWING THE ANSWER) ASKED WHETHER NIOC WAS SELLING LIGHT OR HEAVY CRUDE. SHAH REFERRED QUESTION TO HIS ADVISORS, WHO HEDGED. HE INSTRUCTED THEM TO GET THE FIGURES, AND ACCORDING TO COMPANY EXECUTIVES, SEEMED PERFECTLY AWARE THAT THEY WERE TRYING TO HIDE FACT THAT NIOC ALSO HAVING DIFFICULTY SELLING HEAVY CRUDE.

3. COMPANY EXECUTIVES TOLD SHAH FRANKLY THAT THEY COULD NOT FORECAST LIFTINGS ABOVE THE FOURTH QUARTER 1975 LEVEL FOR THE IMMEDIATE FUTURE, PERHAPS FOR THE NEXT FEW YEARS: THE FUTURE IS SIMPLY NOT CLEAR. SHAH ASKED WHY, THEN, HE SHOULD CONTINUE TO HELP OUT COMPANIES BY MAKING THEIR AGREED SHARE OF CAPITAL CONTRIBUTIONS. THEY REPLIED THAT PRESENT ARRANGEMENTS WERE SIMPLY "NOT VIABLE" FOR THEM IF THEY HAD TO CONTRIBUTE CAPITAL: THEIR RESULTING NEGATIVE CASH FLOW IN IRAN WOULD BE INTOLERABLE. APPARENTLY THE SHAH UNDERSTOOD.

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4. SHAH SAID A NEW AGREEMENT WAS URGENT AND THAT HE ACCEPTED PRINCIPLE THAT NIOC SHOULD PROVIDE ALL CAPITAL AND MEMBERS WOULD PROVIDE TECHNICAL SERVICES FOR A FEE, BUT WANTED SOME ASSURANCES ON LIFTINGS. MEMBERS WERE PLEASED AT FIRST TWO POINTS BUT SAID THAT PREFERENTIAL ASSURANCES ON LIFTINGS WERE IMPOSSIBLE. ANY PREFERENCES FOR IRAN WOULD IMMEDIATELY BECOME KNOWN AROUND PERSIAN GULF AND PLACE THEM IN INTOLERABLE POSI-

TION IN OTHER COUNTRIES. IF MEMBERS WERE FORCED TO GIVE FIRM ASSURANCES ON LIFTINGS, THEY WOULD BE VERY CONSERVATIVE AND OFFER TO TAKE ONLY SMALL QUANTITIES. THEY SUGGESTED THAT INSTEAD, OVERALL AGREEMENT SHOULD BE STRUCTURED TO GIVE ADEQUATE PRICE/FEE INCENTIVES TO MEMBERS TO TAKE OIL FROM IRAN. (THEY EXPLAINED TO DCM THAT IT COULD BE ARGUED THAT FEE IS RELATED TO LEVEL AND COMPLEXITY OF SERVICES PROVIDED, IN ERA WHEN SUCH SERVICES ARE IN GREAT DEMAND.) SHANLAPPARENTLY TOOK THE POINT, GRANVILLE SAID. EMBASSY'S IMPRESSION, HOWEVER, IS THAT ISSUE IS FAR FROM RESOLVED.

5. SHAH EXPLICITLY RECOGNIZED PRINCIPLE THAT "MEMBERS SHOULD NOT LOSE MONEY ON ABADAN REFINERY" (PARA 4, FIRST REF), TO GREAT RELIEF OF COMPANY EXECUTIVES. HE ALSO AGREED THAT WHILE NEGOTIATIONS PROCEED, NIOC WILL CONTRIBUTE MEMBERS' SHARE OF CAPITAL AS FROM JANUARY. EMBOFF PRESSED GRANVILLE ON WHETHER SHAH HAD SET NO TIME LIMIT ON THIS. GRANVILLE REPLIED THAT THEY HOPED TO REACH AGREEMENT BEFORE END OF FEBRUARY AND ACKNOWLEDGED SHAH HAD SAID THAT IF AGREEMENT NOT CONCLUDED BY MARCH 15 THERE WILL BE PROBLEMS. MEMBERS NOT CLEAR ON WHETHER THEY WILL IN MEAN-TIME GET ANY RELIEF ON PRICE OF IRANIAN HEAVY AND ON ABADAN REFINERY. AT ONE POINT SHAH HAD ASKED THEM HOW MUCH LIFTINGS OF HEAVY MAY INCREASE WITH A PRICE CUT AND MEMBERS REPEATED ARGUMENTS ABOUT MARKET CONSTRAINTS BUT WHEN PRESSED FURTHER REPLIED THAT FOR PRESENT PERHAPS 100-200 MBD AT MOST. WHY THEN, ASKED SHAH, SHOULD I BOTHER TO CUT PRICE? MEMBERS REPLIED THAT THEY ARE LOSING CUSTOMERS, THAT THEY COULD LISE MORE, AND THIS COULD CAUSE LOSS OF FUTURE SALES AS WELL.

6. IN THE ONE LIGHT NOTE OF THE MEETING, SHAH SAID PERHAPS "BLACK SHEEP" OF CONSORTIUM SHOULD BE EXCLUDED FROM NEW AGREEMENTQ, AND (LOOKING AT GRANVILLE) "TEXACO HAS ALWAYS BEEN A BLACK SHEEMMZ SUTCLIFFE IMMEDIATELY REPLIED THAT IN LAST 2 AND 1/2 YEARS, NO MEMBER HAD DONE MORE THAGTEXACO TO PROMOTE
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GOOD RELATIONS BETWEEN IRAN AND MEMBERS. SHAH LAUGHED AND SAID "THE NEW MEN AT TEXACO, PERHAPS."

7. NO DOUBT MEMBERS WILL NOW RUN INTO NIOC GUERRILLA WARFARE THAT NORMALLY FOLLOWS APPARENT MEETING OF MINDS WITH SHAH. NEVERTHELESS, BOTH SIDES WILL BE UNDER CONSIDERABLE PRESSURE TO WORK FAST, NIOC BECAUSE OF PRESSURE TO INCREASE LIFTINGS AND THE MEMBERS BECAUSE OF THEIR NEED TO PRESERVE ACCESS TO IRANIAN CRUDE ON TOLERABLE TERMS.
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